



State of Rhode Island and Providence Plantations

Revenue Estimating Conference

Room 117, STATE HOUSE, PROVIDENCE, RI 02903

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MEMORANDUM

To: The Honorable Lincoln C. Almond, Governor
The Honorable John B. Harwood, Speaker of the House
The Honorable Paul S. Kelly, Senate Majority Leader

From: Russell C. Dannecker, Senate Fiscal Advisor
Michael F. O'Keefe, House Fiscal Advisor
Stephen P. McAllister, State Budget Officer

Date: 8 May, 1998

Subject: May 1998 Revenue Estimating Conference

The Revenue Estimating Conference (REC) met on 4 and 7 May 1998 in open public meetings. The conference issued revised estimates for FY1998 and FY1999 revenues. They are shown on the attached tables. Adopted estimates reflect current projections for the Rhode Island Economy. The projections were presented by Robert Langlais, Assistant Director LMI Unit, Department of Labor and Training; Sara L. Johnson, Chief Regional Economist and Rachael A. Chioino, Associate Regional Economist for Standard & Poor's DRI; Paul Getman, President, Regional Financial Associates; and Leonard Lardaro, Rhode Island Forecast Manager, New England Economic Project.

RHODE ISLAND ECONOMIC FORECAST

Department of Labor and Training

Rhode Island's seasonally adjusted unemployment rate of 5.0% for March was up one-tenth of a percentage point from last month, but down one-half of a percentage point from last March. The seasonally adjusted unemployment rate has not shown much change over the last eight months. The resident employment and unemployment to data continue to indicate an improving economy. The continuing decline in the number of insured unemployed and the drop in the number of individuals exhausting their unemployment benefits during the first quarter of 1998 indicate that the long term unemployed situation has improved considerably. The 2.2% increase in Wages and Salary jobs through the first three months of 1998 compares very favorably to 1997 and is an encouraging trend. The strong performance of our neighboring states has also continued to provide employment prospects for Rhode Island workers.

Standard & Poor's DRI

After six years of expansion, Rhode Island has regained 38,000 of the 50,000 payroll jobs lost during the 1989-91 recession. The recovery will be complete in 2000. Employment growth will pick up from 1.7% in 1997 to 2.0% this year with the influx of jobs in financial services. Population and job growth will, however, trail the region's and the nation's. A shortage of skilled labor and a limited presence of high-tech industries will hold back the state's performance. Tax incentives will make financial services a driving force in Rhode Island's economy as Fidelity Investments and Fleet Financial Group bring jobs to Smithfield and Lincoln. Improved transportation linkages, activation of a free trade zone, electricity deregulation, and tax reductions will help to make Rhode Island a more attractive business location. The State will rank 37th among the states in job growth over the next five years, an improvement from 48th place over the 1992-97 period.

Regional Financial Associates

Although Rhode Island is still under-pacing the nation, the State's economy is exhibiting its strongest growth in more than ten years. Along with accelerating job and income growth, housing activity is also picking up. As a result of strengthening housing activity and the start of construction on the Providence Place Mall, construction employment is surging. Another reflection of the State's improving economic condition is soaring consumer confidence, which is at a ten year high in the State. The reluctance to date of the Federal Reserve to raise short term interest rates is another plus for Rhode Island's prospects. Still, there are no permanent growth engines in this small, undiversified economy. Rhode Island's manufacturing industries, which constitute just under 20% of all employment, continue to shrink at a heady pace. Another major weakness is the continued negative migration flow out of the State. Rhode Island is expected to continue to place among the slowest growing states over the forecast horizon.

New England Economic Project

In 1997, Rhode Island finally broke the 1.5% employment growth target that had alluded it throughout this entire recovery. A number of areas registered strong performances. Retail sales rose sharply while existing home sales set yet another record. Local government employment grew by 6%. Rhode Island's unemployment rate continued to decline, as did both layoffs and long term unemployment. The State's recent development efforts to attract financial service firms have begun to pay dividends. In addition, construction of the Providence Place Mall is well under way. Performance relative to the rest of the region or the nation as a whole was less than stunning. Our "record" employment growth last year was only about 65% of the national rate. Rhode Island's unemployment rate rose in 1997. The State's current areas of strength (retail sales, construction, existing home sales, and local government employment) are all highly vulnerable to increases in interest rates and slowdowns in the pace of national or regional activity. Because of the negatives that offset many of the State's positives the present forecast predicts less economic momentum than is now presumed to exist. The forecast retains the pattern of slowing economic activity in late 1998 through 1999.

Comparison of Forecasts

Below is a chart compiled from information presented by Standard & Poor's DRI, Regional Financial Associates; and the New England Economic Project. This chart highlights the difficulty revenue forecasters face while incorporating economic forecasts into revenue projections.

	DRI	RFA	NEEP
Total Employment Growth			
FY1997	1.1%	1.1%	1.1%
FY1998	1.9%	1.9%	1.6%
FY1999	1.4%	1.0%	1.3%
Unemployment Rate			
FY1997	5.1%	5.3%	5.1%
FY1998	4.8%	5.0%	4.9%
FY1999	4.9%	5.1%	5.0%
Gross State Product Growth			
FY1997		0.7%	0.7%
FY1998		2.8%	1.3%
FY1999		1.8%	1.5%
Population Growth			
FY1997	-0.1%	-0.1%	-0.1%
FY1998	0.0%	0.0%	-0.1%
FY1999	0.2%	0.0%	0.1%
Housing Starts/Permits (000's)			
FY1997	2.5	2.5	2.2
FY1998	2.7	2.6	2.3
FY1999	2.7	2.2	2.1
Personal Income Growth			
FY1997	3.9%	3.9%	3.9%
FY1998	4.8%	5.1%	4.8%
FY1999	4.1%	5.5%	5.1%
Wage & Salary Growth			
FY1997	4.7%	4.7%	4.7%
FY1998	5.7%	6.1%	5.2%
FY1999	4.7%	6.4%	4.8%

FY1998 -- REVENUES

Budget As Enacted compared to May Estimate

When compared to the Budget as Enacted, the revised FY 1998 revenue estimate of **\$1,967.4** million increased available resources by **\$124.4** million. The enacted FY1998 Revenue Estimate was **\$1,843.0** million. The total estimate of *Taxes* increased by **\$123.2** million from the enacted level. The two major sources of tax revenue, the Personal Income Tax and Sales & Use Tax estimates, have been increased by **\$84.9** million and **\$23.5** million respectively. These revisions are predicated on continued favorable economic reports and ten months collection history. The projected growth rate for the Personal Income Tax is now **13.9%** compared to the enacted **0.5%**. The projected growth rate for the Sales & Use Tax is now **7.7%** compared to the enacted **2.9%**. Considering collection history to date the total estimate of *Departmental Revenues* increased by **\$8.3** million from the enacted level. The total estimate of *Other Sources* decreased by **(\$7.1)** million from the enacted level. This was primarily due to a **\$1.3** million reduction in the unclaimed property estimate and shifting **\$6.0** million for Employee Medical Recovery from FY1998 to FY1999. Based upon these changes the revised growth rate in general revenue, when compared to FY1997, from all sources is increased from **0.0%** to **6.7%**.

November Estimate compared to May Estimate

When compared to the November REC estimate the revised FY1998 revenue estimate of **\$1,967.4** million increased available resources by **\$64.3** million. The November REC FY1998 Revenue Estimate was **\$1,903.1** million. The total estimate of *Taxes* increased by **\$58.5** million from the November level. The two major sources of tax revenue, the Personal Income Tax and Sales & Use Tax estimates, have been increased by **\$43.9** million and **\$11.0** million respectively. These revisions are predicated on continued favorable economic reports and ten months collection history. The projected growth rate for the Personal Income Tax is now **13.9%** compared to the November estimate of **7.0%**. The projected growth rate for the Sales & Use Tax is now **7.7%** compared to the November estimate of **5.5%**. Based upon collection history to date the total estimate of *Departmental Revenues* increased by **\$1.5** million from the November estimated level. The total estimate of *Other Sources* increased by **\$4.3** million from the November estimated level. This was primarily due to a **\$5.0** million increase in the lottery estimate. Based upon these changes the revised growth rate in general revenue, when compared to FY1997, from all sources is increased from **3.2%** to **6.7%**.

FY1999 -- REVENUES

November Estimate compared to May Estimate

When compared to the November estimate the revised FY1999 revenue estimate of **\$1,946.2** million increased available resources by **\$68.0** million. The November estimate was **\$1,878.2** million. The total estimate of *Taxes* increased by **\$59.5** million from the previously estimated level. The two major sources of tax revenue, the Personal Income Tax and Sales & Use Tax estimates, have been increased by **\$33.3** million and **\$16.0** million respectively. These revisions are predicated on continued favorable economic reports and ten months collection history. The projected growth rate for the Personal Income Tax is now **1.5%** compared to the previously estimated **3.2%**. The projected growth rate for the Sales & Use Tax is now **4.0%** compared to previously estimated **3.1%**. Considering enhanced FY1998 year-to-date collections, together with non-statutory changes which will impact positively upon FY1999 departmental receipts, the total estimate of *Departmental Revenues* increased by **\$2.6** million from the previous estimated level. The total estimate of *Other Sources* increased by **\$6.0** million from the previous level. This was primarily due to a **\$5.1** million increase in the lottery estimate. Based upon these changes the revised growth rate in general revenue, when compared to FY1998, from all sources is increased from **-1.3%** to **-1.1%**.

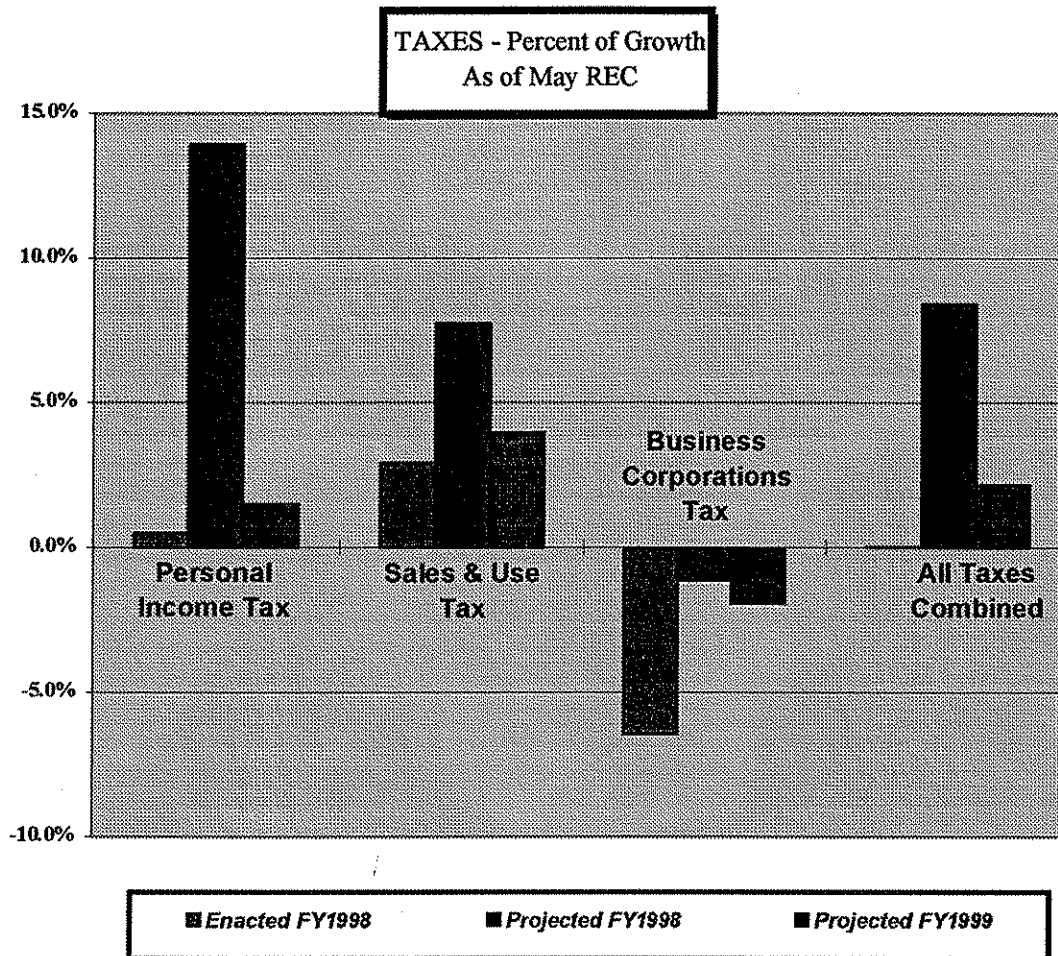
FY1998 Compared to FY1999

FY1998 May Conference Estimate compared to FY1999 May Conference Estimate

When compared to the FY1998 May Conference Estimate the revised FY1999 revenue estimate of **\$1,946.2** million indicates that available resources will decline by **(\$21.2)** million. However, the total estimate of *Taxes* increased by **\$34.7** million from the FY1998 consensus level. The Personal Income Tax estimate will increase **\$11.0** million calculated by using the FY1998 estimate and a growth rate of **1.5%**. This is less than the projected growth rate of **13.9%** for FY1998. Growth is also projected for the Sales & Use Tax that will increase **\$21.0** million over the FY1998 consensus level. This is a **4.0%** rate of growth compared to **7.7%** growth rate in FY1998. The total estimate of *Departmental Revenues* decreases by **(\$37.5)** million from the FY1998 consensus level. This reflects the loss of the Hospital Licensing Fee of **\$37.4** million. The total estimate of *Other Sources* decreases by **(\$18.5)** million from the FY1998 consensus level. This reflects the lack of certain transfers such as **\$2.0** million from the Resource Recovery Corporation and **\$15.0** million from DEPCO. Also causing the decline is the non-recurring portion of the Airport Lease payment deal worth **\$6.1** million and the elimination of **\$1.0** million from the Blue Cross Recovery because of the change on State employee health plans. These losses are offset by a **\$6.0** million projected increase from Employee Medical Recovery that, as mentioned earlier, was shifted from FY1998.

ATTACHMENTS & NEXT MEETING

Attached you will find two charts and below one graph that details the changes noted in the narrative above. The next required meeting of the conference is currently scheduled for November 1998.



REVENUE COMPARISONS - FY1998									
TABLE: REC #1	Actual FY1997	Enacted June Estimate FY1998	Conference November Estimate FY1998	Conference May Estimate FY1998	Conference May Vs Enacted FY1998	Conference May vs Conference November	Growth Rate FY97 to Enacted FY98	Growth Rate FY97 to FY98 Con. Nov.	Growth Rate FY97 to FY98 Con. May
REC Report 26-May-98									
GENERAL REVENUES									
TAXES									
Personnel Income Tax	\$632,143,363	\$635,282,352	\$676,300,000	\$720,200,000	\$84,917,648	\$43,900,000	0.5%	7.0%	13.9%
GENERAL BUSINESS TAXES:									
Business Corporations									
Franchise	\$67,768,029	\$63,393,918	\$65,900,000	\$67,000,000	\$3,606,082	\$1,100,000	-6.5%	-2.8%	-1.1%
Public Utilities Gross Earnings	\$6,870,009	\$6,900,000	\$6,900,000	\$7,300,000	\$400,000	\$400,000	0.4%	0.4%	6.3%
Financial Institutions	\$69,397,394	\$62,600,000	\$64,200,000	\$61,600,000	(\$1,000,000)	(\$2,600,000)	-9.8%	-7.5%	-11.2%
Insurance Companies	\$20,313,777	\$12,811,000	\$11,000,000	(\$1,600,000)	(\$14,411,000)	(\$12,600,000)	-36.9%	-45.8%	-107.9%
Bank Deposits	\$33,036,335	\$31,284,000	\$32,300,000	\$40,900,000	\$9,616,000	\$8,600,000	-5.3%	-2.2%	23.8%
Health Care Provider Assessments	\$4,083,954	\$500,000	\$600,000	\$800,000	\$300,000	\$200,000	-87.8%	-85.3%	-80.4%
SALES AND USE TAXES:									
Sales and Use	\$22,465,036	\$23,600,000	\$23,700,000	\$23,200,000	(\$400,000)	(\$500,000)	5.1%	5.5%	3.3%
Motor Vehicle	\$489,132,746	\$503,480,000	\$516,000,000	\$527,000,000	\$23,520,000	\$11,000,000	2.9%	5.5%	7.7%
Gasoline	\$36,698,217	\$36,540,000	\$38,700,000	\$40,500,000	\$3,960,000	\$1,800,000	-0.4%	5.5%	10.4%
Cigarettes	\$4,701,991	\$5,039,000	\$5,439,000	\$4,970,000	(\$69,000)	(\$469,000)	7.2%	15.7%	5.7%
Alcohol	\$54,842,926	\$61,200,000	\$65,300,000	\$66,100,000	\$4,900,000	\$800,000	11.6%	19.1%	20.5%
Marijuana Controlled Substances	\$8,372,008	\$8,610,000	\$8,300,000	\$8,300,000	(\$310,000)	\$0	2.8%	-0.9%	-0.9%
OTHER TAXES:									
Inheritance and Gift	\$32	\$0	\$0	\$0	\$0	\$0	-100.0%	-100.0%	-100.0%
Racing & Athletics Tax	\$12,074,862	\$11,300,000	\$12,100,000	\$18,000,000	\$6,700,000	\$5,900,000	-6.4%	0.2%	49.1%
Realty Transfer	\$5,646,881	\$5,600,000	\$5,600,000	\$5,700,000	\$100,000	\$100,000	-0.8%	-0.8%	0.9%
TOTAL - Taxes	\$5,085,737	\$5,100,000	\$5,600,000	\$6,500,000	\$1,400,000	\$900,000	0.3%	10.1%	27.8%
DEPARTMENTAL REVENUE	\$1,472,633,297	\$1,473,240,270	\$1,537,939,000	\$1,596,470,000	\$123,229,730	\$58,531,000	0.0%	4.4%	8.4%
Licenses and Fees									
Fines and Penalties	\$103,988,853	\$101,171,707	\$105,400,000	\$104,100,000	\$2,928,293	(\$1,300,000)	-2.7%	1.4%	0.1%
Sales and Services - Total	\$22,596,571	\$22,000,000	\$21,400,000	\$23,000,000	\$1,000,000	\$1,600,000	-2.6%	-5.3%	1.8%
Miscellaneous	\$37,983,878	\$28,516,968	\$30,000,000	\$30,500,000	\$1,983,032	\$500,000	-24.9%	-21.0%	-19.7%
TOTAL - Departmental Revenues	\$22,673,497	\$31,341,398	\$33,000,000	\$33,700,000	\$2,358,602	\$700,000	38.2%	45.5%	48.6%
TOTAL - GENERAL REVENUE	\$187,242,799	\$183,030,073	\$189,800,000	\$191,300,000	\$8,269,927	\$1,500,000	-2.2%	1.4%	2.2%
OTHER SOURCES	\$1,659,876,096	\$1,656,270,343	\$1,727,739,000	\$1,787,770,000	\$131,499,657	\$60,031,000	-0.2%	4.1%	7.7%
Gas Tax Transfers									
Other Miscellaneous	\$37,710,049	\$30,373,000	\$30,373,000	\$31,290,000	\$917,000	\$917,000	-19.5%	-19.5%	-17.0%
Lottery	\$40,993,040	\$42,568,595	\$35,234,519	\$34,834,519	(\$7,734,076)	(\$400,000)	3.8%	-14.0%	-15.0%
Unclaimed Property	\$100,032,238	\$108,800,000	\$104,800,000	\$109,800,000	\$1,000,000	\$5,000,000	8.8%	4.8%	9.8%
TOTAL - Other Sources	\$5,032,739	\$5,000,000	\$5,000,000	\$3,750,000	(\$1,250,000)	(\$1,250,000)	-0.7%	-0.7%	-25.5%
TOTAL - RESOURCES AVAILABLE	\$183,768,066	\$186,741,595	\$175,407,519	\$179,674,519	(\$7,067,076)	\$4,267,000	1.6%	-4.5%	-2.2%
	\$1,843,644,162	\$1,843,011,938	\$1,903,146,519	\$1,967,444,519	\$124,432,581	\$64,298,000	0.0%	3.2%	6.7%

FY99^{REV} Report

REVENUE COMPARISONS - FY1999									
TABLE: REC #2	Conference November Estimate FY1998	Conference May Estimate FY1998	Conference November Estimate FY1999	Conference May Estimate FY1999	Conf. FY1998 May Vs Conf. FY1999 May	Conf. FY1999 November Vs Conf. FY1999 May	Growth Rate FY97 to Con. May FY98	Growth Rate Conf. Nov. FY98 to Con. Nov. FY99	Growth Rate Conf. May FY98 to Con. May FY99
REC Report									
26-May-98									
GENERAL REVENUES									
TAXES									
Personnel Income Tax	\$676,300,000	\$720,200,000	\$697,900,000	\$731,200,000	\$11,000,000	\$33,300,000	13.9%	3.2%	1.5%
GENERAL BUSINESS TAXES:									
Business Corporations	\$65,900,000	\$67,000,000	\$64,600,000	\$65,700,000	(\$1,300,000)	\$1,100,000	-1.1%	-2.0%	-1.9%
Franchise	\$6,900,000	\$7,300,000	\$6,900,000	\$7,300,000	\$0	\$400,000	6.3%	0.0%	0.0%
Public Utilities Gross Earnings	\$64,200,000	\$61,600,000	\$63,000,000	\$60,600,000	(\$1,000,000)	(\$2,400,000)	-11.2%	-1.9%	-1.6%
Financial Institutions	\$11,000,000	(\$1,600,000)	\$12,000,000	\$7,000,000	\$8,600,000	(\$5,000,000)	-107.9%	9.1%	-537.5%
Insurance Companies	\$32,300,000	\$40,900,000	\$31,800,000	\$40,600,000	(\$300,000)	\$8,800,000	23.8%	-1.5%	-0.7%
Bank Deposits	\$600,000	\$800,000	\$600,000	\$800,000	\$0	\$200,000	-80.4%	0.0%	0.0%
Health Care Provider Assessments	\$23,700,000	\$23,200,000	\$24,400,000	\$24,000,000	\$800,000	(\$400,000)	3.3%	3.0%	3.4%
SALES AND USE TAXES:									
Sales and Use	\$516,000,000	\$527,000,000	\$532,000,000	\$548,000,000	\$21,000,000	\$16,000,000	7.7%	3.1%	4.0%
Motor Vehicle	\$38,700,000	\$40,500,000	\$38,700,000	\$40,500,000	\$0	\$1,800,000	10.4%	0.0%	0.0%
Gasoline	\$5,439,000	\$4,970,000	\$5,529,000	\$5,000,000	\$30,000	(\$529,000)	5.7%	1.7%	0.6%
Cigarettes	\$65,300,000	\$66,100,000	\$64,400,000	\$65,000,000	(\$1,100,000)	\$600,000	20.5%	-1.4%	-1.7%
Alcohol	\$8,300,000	\$8,300,000	\$8,300,000	\$8,300,000	\$0	\$0	-0.9%	0.0%	0.0%
Marijuana Controlled Substances	\$0	\$0	\$0	\$0	\$0	\$0	-100.0%	#DIV/0!	#DIV/0!
OTHER TAXES:									
Inheritance and Gift	\$12,100,000	\$18,000,000	\$10,400,000	\$15,000,000	(\$3,000,000)	\$4,600,000	49.1%	-14.0%	-16.7%
Racing & Athletics Tax	\$5,600,000	\$5,700,000	\$5,600,000	\$5,700,000	\$0	\$100,000	0.9%	0.0%	0.0%
Realty Transfer	\$5,600,000	\$6,500,000	\$5,600,000	\$6,500,000	\$0	\$900,000	27.8%	0.0%	0.0%
TOTAL - TAXES	\$1,537,939,000	\$1,596,470,000	\$1,571,729,000	\$1,631,200,000	\$34,730,000	\$59,471,000	8.4%	2.2%	2.2%
DEPARTMENTAL REVENUE									
Licenses and Fees	\$105,400,000	\$104,100,000	\$68,000,000	\$66,700,000	(\$37,400,000)	(\$1,300,000)	0.1%	-35.5%	-35.9%
Fines and Penalties	\$21,400,000	\$23,000,000	\$21,400,000	\$24,000,000	\$1,000,000	\$2,600,000	1.8%	0.0%	4.3%
Sales and Services - Total	\$30,000,000	\$30,500,000	\$28,800,000	\$30,000,000	(\$500,000)	\$1,200,000	-19.7%	-4.0%	-1.6%
Miscellaneous	\$33,000,000	\$33,700,000	\$33,000,000	\$33,100,000	(\$600,000)	\$100,000	48.6%	0.0%	-1.8%
TOTAL - Departmental Revenues	\$189,800,000	\$191,300,000	\$151,200,000	\$153,800,000	(\$37,500,000)	\$2,600,000	2.2%	-20.3%	-19.6%
TOTAL - GENERAL REVENUE	\$1,727,739,000	\$1,787,770,000	\$1,722,929,000	\$1,785,000,000	(\$2,770,000)	\$62,071,000	7.7%	-0.3%	-0.2%
OTHER SOURCES									
Gas Tax Transfers	\$30,373,000	\$31,290,000	\$26,424,000	\$27,000,000	(\$4,290,000)	\$576,000	-17.0%	-13.0%	-13.7%
Other Miscellaneous	\$35,234,519	\$34,834,519	\$16,214,105	\$16,714,105	(\$18,120,414)	\$500,000	-15.0%	-54.0%	-52.0%
Lottery	\$104,800,000	\$109,800,000	\$107,600,000	\$112,700,000	\$2,900,000	\$5,100,000	9.8%	2.7%	2.6%
Unclaimed Property	\$5,000,000	\$3,750,000	\$5,000,000	\$4,800,000	\$1,050,000	(\$200,000)	-25.5%	0.0%	28.0%
TOTAL - Other Sources	\$175,407,519	\$179,674,519	\$155,238,105	\$161,214,105	(\$18,460,414)	\$5,976,000	-2.2%	-11.5%	-10.3%
TOTAL - RESOURCES AVAILABLE	\$1,903,146,519	\$1,967,444,519	\$1,878,167,105	\$1,946,214,105	(\$21,230,414)	\$68,047,000	6.7%	-1.3%	-1.1%